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Lornex

MINING CORPORATION LTD.

ANNUAL REPORT 1971

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OFFICERS	Honorary Chairman - - - - - - - - E. H. LORNTZSEN Chairman of the Board - - - - - - R. W. WRIGHT, CBE President and Chief Executive Officer - - R. D. ARMSTRONG Vice-President - - - - - - - - - - G. R. ALBINO Vice-President - - - - - - - - - - N. F. WARREN Treasurer - - - - - - - - - - - J. VAN NETTEN Secretary - - - - - - - - - - C. W. M. BURGE
DIRECTORS	G. R. ALBINO, Port Credit, Ont. W. A. ARBUCKLE, Montreal R. D. ARMSTRONG, Toronto E. B. GILLANDERS, Surrey, B.C. N. B. IVORY, Montreal K. KAWAKAMI, Tokyo, Japan E. H. LORNTZSEN, Vancouver J. A. SADLER, Toronto J. H. SMITH, Toronto R. W. WRIGHT, CBE, London, England
HEAD OFFICE	580 Granville St. - - - - - - - - - - - Vancouver
MINE OFFICE	P.O. Box 1500 - - - - - - - - - - - Logan Lake
PRINCIPAL BANKERS	Canadian Imperial Bank of Commerce - Vancouver and Toronto The Toronto-Dominion Bank - - - - - - - - Toronto Bank of Montreal - - - - - - - - - - Toronto
SOLICITORS	Clark, Wilson & Company - - - - - - - Vancouver Fasken & Calvin - - - - - - - - - - - Toronto
AUDITORS	Coopers & Lybrand - - - - - - - - - - Vancouver
REGISTRAR AND TRANSFER AGENT	National Trust Company, Limited - - - - - - Vancouver
SHARES LISTED	Vancouver Stock Exchange
THE ANNUAL GENERAL MEETING	10:00 a.m., Tuesday, April 25, 1972 Hotel Vancouver, Vancouver, British Columbia

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors are pleased to submit this report on the development and construction of the Company's copper-molybdenum mine in the Highland Valley area of British Columbia and the Company's financial position for the year ended December 31, 1971.

Development and Construction

Despite unusually severe winter weather and spring break-up conditions, the Lornex Project is essentially on schedule in relation to the planned start-up in the second quarter of 1972.

The pit operation is fully staffed, and personnel are being added to strength as required in preparation for the commencement of milling operations. The permanent workforce at year end was 309, about 56% of the currently estimated required final total of 550.

Open Pit Development

Preparation of the open pit for production, involving removal of overburden, oxide ore and waste rock is being carried out at a satisfactory rate. Revised density calculations indicate a total pre-production removal requirement of 52 million tons compared with 47 million tons previously reported. Since the cubic yardage involved has remained unchanged, there has been no resultant increase in the budgeted pit preparation costs.

A total of 37,661,000 tons of material had been removed by year-end, about 72% of pre-production requirements.

The principal production units being used for this work, and which will be used subsequently for production, comprise twenty-two 120 ton trucks and four 15 cubic-yard shovels.

Engineering and Construction of Process and Ancillary Facilities

Engineering design was essentially completed by mid-year, and at year-end work on the process and ancillary facilities had advanced to 92% of completion of physical construction.

Because of the delays in start of construction, the severe winter conditions encountered in early 1971 and other factors, it became necessary to increase the contractor workforce substantially in 1971 to meet construction schedules. The size of the construction camp was increased accordingly. The permanent mine camp had been completed in February 1971.

Crusher, Concentrator and Service Buildings

Construction of major buildings was virtually complete by year-end; the major work still to be completed is related to connection of utilities and equipment installation. The pit service and main office buildings were commissioned in the latter part of the year. Construction of the mill service, laboratory and reagent buildings is proceeding on schedule.

Tailings and Water Systems

The downstream tailings dam has been completed. Engineering and design work is proceeding on the upstream dam which is not required until after the start of production and which will be constructed in 1972. Tailings disposal and reclaim-water piping systems are essentially complete.

Relocation of the electric power transmission line and the highway which ran through the tailings basin has been completed.

A contract has been awarded to a consulting firm for pollution control services. A sampling program was begun in August to establish a basis for measurement and control.

Make-up water for plant requirements will be drawn from the Thompson River through a pipe-

line approximately 17 miles long. The water intake installation, supply reservoir and pipeline have been completed; some work remains to be done on auxiliary facilities.

Townsite

At the Logan Lake townsite 140 houses and 18 townhouse type housing units had been completed by year-end except for some exterior work on about 40 houses being deferred to the spring of 1972; 121 families were in residence at December 31, 1971. All of the housing units available for purchase had either been purchased or reserved by year-end, and a number of lots had been sold for mobile homes.

Plans are proceeding for the third phase of the housing project with construction scheduled to commence in the spring of 1972.

The Village of Logan Lake has taken over operation of the civic centre. The Company is making property available for private commercial activities including a bank, store and post office which are in operation and a motel under construction.

(1)

(2)

(1) *Lornex's mill complex as seen from coarse ore conveyer trestle. The mill is expected to process over 38,000 tons of ore per day.*

(2) *Logan Lake, a planned community built by Lornex and incorporated as a village, was opened officially November, 1971. It has a population of more than 500, some 140 homes, townhouses, mobile homes, paved roads, a school, bank, service station, fire department and an RCMP detachment.*

(3) *Flotation concentrator where copper is recovered.*

(4) *Booster pump station which provides the operation with water from Thompson River. Some 17 miles of 20 and 24-inch pipeline is required to carry water from the river to the plant.*

(5) *Part of grinding bay in which coarse ore is reduced prior to further processing which removes copper concentrate from host rock.*

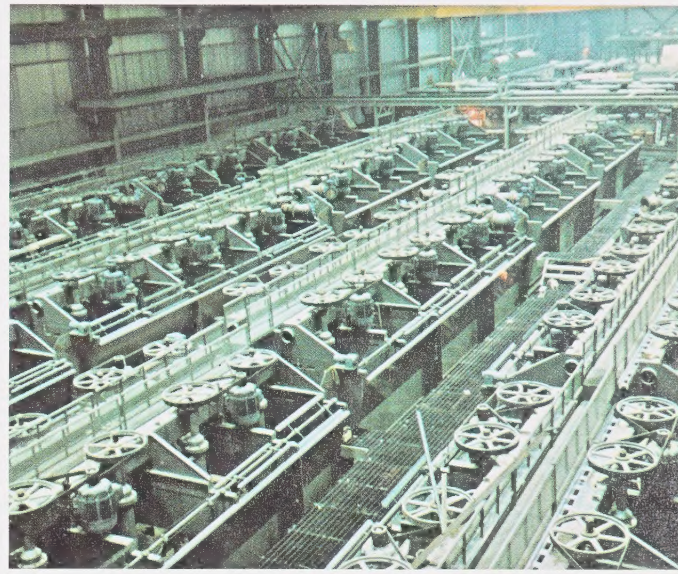
Project Cost

As previously advised it is expected that the Lornex Project capital cost will be $138.0 million compared with the $123.6 million originally estimated in 1969 when the financing arrangements were made. The increase from the original estimate is due largely to labour, material and equipment costs escalating at an unprecedented rate in North America and to pollution control regulations becoming more stringent, requiring a more complex tailings disposal system. Other mining companies deferred decisions to develop their contiguous properties and did not participate in the capital costs of the water and tailings systems. In addition, as detailed design evolved, a number of improvements in physical facilities were made that are capacity and operating-cost oriented. The increased capital expenditure is expected to result in some increase in actual plant capacity as compared to the design capacity of 38,000 tons of ore per day. Moreover, as pit preparation has progressed, it appears that the average grade of copper may turn out to be better than the 0.427 per cent grade used in the feasibility study. Consequently, it is expected that production will exceed the design rate when the operation has completed its run-in phase and is brought into balance.

Capital expenditures for the year were $79,342,000. Total capital expenditures on the project to December 31, 1971, including accrued interest, financing expenses, and exploration expenses, and after deducting receipts from sales of townsite property, were $115,627,000. Development and construction commitments at December 31, 1971 were approximately $8,319,000.

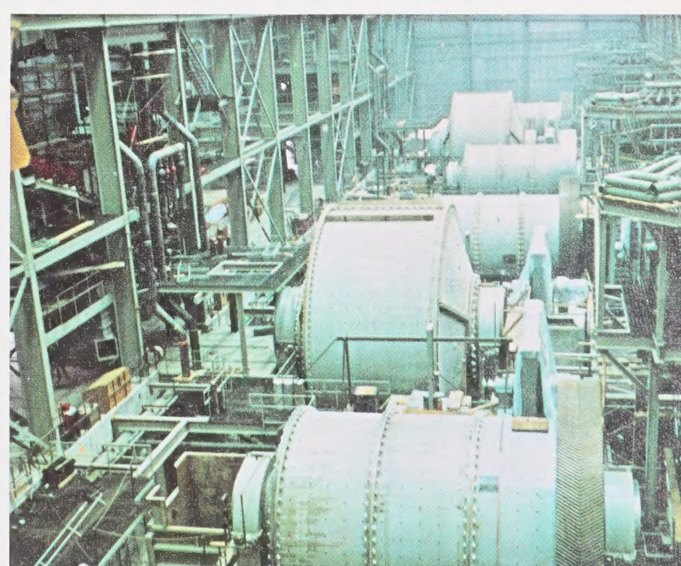
Financing

In 1970 Rio Algom Mines Limited and The Yukon Consolidated Gold Corporation Limited purchased Units consisting of Income Debentures and Class A or common shares of the Company for $23.6 million. During 1971, in accordance with the supplementary financing provisions of the Construction and Management Agreement



(3)

(4)



(5)

between the Company and Rio Algom, additional Units were purchased by Rio Algom for $16.1 million; under a previous agreement, 27.5% of these Units were sold by Rio Algom to Yukon.

In 1970 a Japanese consortium purchased Units consisting of Notes and common shares of the Company for U.S. $10.0 million; during 1971 the financing arrangement with the consortium was completed upon the purchase for U.S. $16.5 million of additional Units comprising Notes and common shares for an aggregate of U.S. $26.5 million.

Under a bank loan agreement three Canadian banks are to provide a total of $60.0 million. By December 31, 1971 three draws totalling $36.0 million had been made against this loan, a further $12.0 million was drawn in January 1972. The final draw of $12.0 million was made on February 24, subsequent to the date of this report.

A maximum of $4.0 million is to be provided by Central Mortgage and Housing Corporation and Canadian banks to finance construction of housing at Logan Lake. The gross amount of these loans drawn in 1971 totalled $1.7 million of which $1.4 million was subsequently assumed by employees upon purchase of townsite properties.

At December 31, 1971 the total loan position of the Company was as follows:

Bank loans		$ 36,000,000
Japanese loans (U.S. $26.5 million)		26,836,406
Income debentures		39,741,000
Housing loans	$1,710,250	
Less assumed by employees	1,440,277	269,973
		$102,847,379
Accrued interest on income debentures		3,710,780
Total		$106,558,159

Copper Sales Agreement

As previously reported the entire copper concentrate production of the Lornex mine has been contracted for by a group of Japanese smelters for a period of twelve years. The Japanese copper smelting industry is currently depressed and the industry has stated that its costs have increased as a result of pollution control requirements and the revaluation of the Japanese yen. Consequently, the Japanese purchasers have indicated that they may request Lornex to reduce its shipments temporarily and to grant an increase in the contracted smelting and refining charges applicable to the Lornex concentrates.

Molybdenum Sales Agreement

The Company has concluded a five year contract for the sale of the projected annual output of molybdenum concentrates estimated at about 3,000,000 pounds per year of contained molybdenum.

Tribute

The untimely passing on January 3, 1972, of Mr. W. P. Arnold, a Director of the Company since November 1965, is a sad loss to his colleagues and to Lornex. As a Director, and as Executive Vice-President, Mining Operations, of Rio Algom Mines Limited, Mr. Arnold was closely connected with the early exploratory stages of the Lornex project and made significant contributions to its development.

Appreciation

The Directors of the Company appreciate the dedication and co-operation of all parties participating in the Lornex Project.

We would like to thank the shareholders for their confidence and support, and the employees of Lornex and Rio Algom for their effective performance during the year.

On behalf of the Board

Vancouver, B.C.,
February 21, 1972

R. D. Armstrong
President

Auditors' Report

To the Shareholders of
Lornex Mining Corporation Ltd.:

We have examined the statement of financial position of Lornex Mining Corporation Ltd. as at December 31, 1971, and the statements of exploration, development and construction expenditures and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and disposition of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia.
February 4, 1972.

COOPERS & LYBRAND
Chartered Accountants

Statement of Financial Position

DECEMBER 31, 1971

($000's omitted)

	1971	1970
CURRENT ASSETS:		
Cash	$ 251	$ 154
Short term investments, at cost, and deposits	4,111	11,752
Accounts receivable and prepaid expenses	608	48
Total	4,970	11,954
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	1,987	488
Due to affiliated and associated companies	1,351	1,479
Total	3,338	1,967
WORKING CAPITAL	1,632	9,987
Plant and equipment at cost less accumulated depreciation (note 2)	11,430	8,306
Construction in progress at cost (note 2)	72,499	10,897
Mining properties and preproduction expenditures (note 2)	31,698	14,918
	115,627	34,121
TOTAL ASSETS LESS CURRENT LIABILITIES	117,259	44,108
Deduct:		
Long term debt (note 3)	106,558	34,792
EXCESS OF ASSETS OVER LIABILITIES	$ 10,701	$ 9,316
OWNERSHIP EVIDENCED BY (note 4):		
Capital stock		
Authorized —		
9,500,000 common shares, par value of $1.00 each		
4,500,000 Class A shares, par value of $1.00 each		
Issued —		
7,138,584 common shares (6,241,552 shares in 1970)	$ 7,139	$ 6,242
712,018 Class A shares (224,374 shares in 1970)	712	224
	7,851	6,466
Premium less discount on shares issued for cash	2,850	2,850
Total	$ 10,701	$ 9,316

Approved on behalf of the Board:

R. D. ARMSTRONG, Director.

W. A. ARBUCKLE, Director.

Statement of Exploration, Development and Construction Expenditures

YEAR ENDED DECEMBER 31, 1971

($000's omitted)

	Balance Dec. 31, 1970	Expenditures During Year	Balance Dec. 31, 1971
Preliminary exploration and project investigation	$ 7,400	$ —	$ 7,400
Equipment (see note)	9,805	11,993	21,798
Mine development and plant construction in progress	11,883	60,036	71,919
Townsite development	1,160	4,649	5,809
Interest and financing charges	936	2,664	3,600
Expenditures involving outlay of funds	$ 31,184	$ 79,342	$ 110,526
Other charges and (credits):			
Accrued interest on income debentures and loans from associated companies	992	2,719	3,711
Value ascribed to share capital (note 3)	1,945	1,385	3,330
Sale of townsite property	—	(1,940)	(1,940)
Net Capital Costs	$ 34,121	$ 81,506	$ 115,627
Represented by:			
Plant and equipment less accumulated depreciation	$ 8,306	$ 3,124	$ 11,430
Construction in progress (see note)	10,897	61,602	72,499
Mining properties and preproduction expenditures including accumulated depreciation	14,918	16,780	31,698
	$ 34,121	$ 81,506	$ 115,627

NOTE:

Equipment charges of $21,798 above include expenditures on mill equipment which are shown under construction in progress on the statement of financial position.

Statement of Source and Disposition of Funds

YEAR ENDED DECEMBER 31, 1971

($000's omitted)

	1971	1970
SOURCE OF FUNDS:		
Bank loans	$ 36,000	$ —
Units of 8¾% Notes and shares	16,636	10,200
Units of 8½% Series A Income Debentures and shares	16,141	23,600
Housing loans (net)	270	—
	69,047	33,800
DISPOSITION OF FUNDS:		
Plant and equipment	$ 4,501	$ 7,135
Construction in progress	61,602	10,897
Mining properties and preproduction expenditures	15,403	5,838
	81,506	23,870
Repayment of loans from associated companies (net)	—	3,000
	81,506	26,870
Less charges not involving current outlay of funds:		
Value ascribed to share capital (note 3)	1,385	1,945
Accrued interest on long term debt	2,719	917
	4,104	2,862
	77,402	24,008
INCREASE OR (DECREASE) IN WORKING CAPITAL	$ (8,355)	$ 9,792

Notes to the Financial Statements

YEAR ENDED DECEMBER 31, 1971

1. CONVERSION OF UNITED STATES CURRENCY

Plant and equipment and long term debt have been converted at exchange rates in effect at time of transactions.

2. PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS AND MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

The amounts shown represent costs to date and do not necessarily reflect present or future values. Expenditures which have been included in either plant and equipment, construction in progress or mining properties and preproduction expenditures are subject to reallocation between these classifications on completion of the construction program.

Plant and equipment consists of:	1971	1970
Buildings, machinery and equipment at cost	$ 13,010,970	$ 8,509,665
Less accumulated depreciation	1,581,271	204,019
	$ 11,429,699	$ 8,305,646

Mining properties and preproduction expenditures consist of:	1971	1970
Mining properties at cost	$ 1,529,915	$ 1,464,474
Preproduction expenditures at cost (including depreciation)	30,168,480	13,453,865
	$ 31,698,395	$14,918,339

Depreciation is being provided on certain equipment being used during the construction period on the straight line method based on the economic life of the assets. During the year ended December 31, 1971 depreciation in the amount of $1,377,252 was provided and is included in preproduction expenditures as shown above.

3. LONG TERM DEBT

	1971	1970
Bank loans (with interest and terms as stated hereunder)	$ 36,000,000	$ —
8¾% Notes due as stated hereunder ($26,500,000 U.S. funds)	26,836,406	10,200,000
8½% Series A Income Debentures due December 31, 1985	39,741,000	23,600,000
Housing loans	269,973	—
Accrued interest on income debentures	3,710,780	991,606
	$106,558,159	$34,791,606

Under a Bank Loan Agreement three Canadian chartered banks agreed to advance a total of $60,000,000 to the Company against receipt of promissory notes of the Company; $36,000,000 had been advanced at December 31, 1971. Repayment of these advances is collaterally secured under a Trust Deed by the pledge of first mortgage bonds, secured by a first fixed and specific charge and a first floating charge on the assets of the Company. The interest rate on such advances is 1¼% above the minimum commercial lending rate of each bank, adjustable from time to time by each bank independently; the present rate is 7¼% per annum.

During the year the Company sold the remaining 16,500 Units under the terms of a Japanese Financing Agreement for a total of $16,636,406 Canadian. Each Unit consisted of $1,000 (U.S. Funds) principal amount of 8¾% Notes and 5.6604 common shares of the Company and was sold at a price of $1,000 (U.S. Funds). Repayment of the Notes is collaterally secured under a Trust Deed by the pledge of second mortgage bonds, secured by a second fixed and specific charge and a second floating charge on the assets of the Company.

During the year the Company sold 16,141 Units under the supplementary financing provisions of a Construction and Management Agreement with Rio Algom Mines Limited at a price of $1,000 per Unit. Each Unit consisted of $1,000 principal amount of Income Debentures and 80 Class A shares.

Repayment of the bank loans begins in the calendar quarter following the commencement of commercial production; repayments are expected to commence in the third quarter of 1972. 75% of the Company's net operating profit as defined in the Bank Loan Agreement is to be applied to repayment of the principal of the loans for the first five calendar quarters of operations. Subsequently 90% of the Company's net operating profit is to be applied to the repayment of the loans until repaid in full and then to the repayment of the Notes under the Japanese Financing Agreement. The cumulative minimum repayments of principal required to be made are as follows (the first repayment year is expected to end in 1973):

	Cumulative Minimum Repayments of Principal	
Repayment Year	Bank Loans	8¾% Notes
1	$ 5,900,000	$ 250,000 U.S.
2	16,300,000	500,000 U.S.
3	29,300,000	750,000 U.S.
4	42,300,000	1,000,000 U.S.
5	54,400,000	1,250,000 U.S.
6	60,000,000	8,350,000 U.S.
7	—	21,650,000 U.S.
8	—	26,500,000 U.S.

Of the $39,741,000 Income Debentures outstanding at December 31, 1971 the original issue of $23,600,000 was made under the terms of an Income Debenture

and Share Purchase Agreement and the balance of $16,141,000 was issued under the supplementary financing provisions of the Construction and Management Agreement. Under certain conditions some part of the supplementary financing portion of $16,141,000 may be repaid in 1973. The remaining principal amount of the Income Debentures is to be repaid by way of annual sinking fund payments from all of the operating profits of the Company after (a) the Bank loans have been paid in full, (b) the Notes under the Japanese Financing Agreement have been paid in full, and (c) accrued and deferred interest on the Income Debentures has been paid in full. The amounts and timing of the required sinking fund payments are defined in the Income Debenture Indenture and are dependent on the operating profits of the Company together with certain other factors. The sinking fund payments are to be used to redeem the Income Debentures at par.

The accrued interest of $3,710,780 at December 31, 1971 may not be paid until the required interest and principal repayments have been made and certain other conditions have been met under the terms of the Bank Loan Agreement and the Japanese Financing Agreement.

During the year the Company issued 93,396 fully paid common shares comprised in Units sold under the Japanese Financing Agreement and 1,291,280 fully paid Class A shares comprised in Units sold under the supplementary financing provisions of the Construction and Management Agreement. A value of $1,384,676 has been ascribed to the 1,384,676 common and Class A shares so issued, which amount is reflected in the statement of exploration, development and construction expenditures.

4. CAPITAL STOCK

	Common		Class A	
	Shares	Amount paid up	Shares	Amount paid up
Shares issued:				
At December 31, 1970 ...	6,241,552	$6,241,552	224,374	$ 224,374
For provision of finance equal to the par value of $1 per share (note 3)	93,396	93,396	1,291,280	1,291,280
	6,334,948	6,334,948	1,515,654	1,515,654
Conversion of Class A to common shares	803,636	803,636	(803,636)	(803,636)
Balance, December 31, 1971 ..	7,138,584	$7,138,584	712,018	$ 712,018

The Class A shares are non-voting, are not entitled to dividends, and may be converted to common shares at any time at the option of the holder on the basis of one common share for each Class A share.

At December 31, 1971, 1,920,738 common shares were reserved:

(a) 1,820,738 common shares for issue in exchange for the 712,018 Class A shares issued and outstanding and for the 1,108,720 Class A shares which may be issued under the terms of the Construction and Management Agreement;

(b) 100,000 common shares for issue under a Stock Option Plan. Options may be granted to employees of the Company and to certain employees of Rio Algom Mines Limited. Outstanding options have been granted to purchase 67,500 common shares at prices varying from $7.29 to $8.10 per share; these options expire on varying dates from September 27, 1976 to June 17, 1977.

In addition 1,108,720 Class A shares are reserved to satisfy obligations of the Company which may arise under the provisions of the Construction and Management Agreement.

The Trust Deeds and Indentures prohibit the payment of dividends until all loans and accrued interest have been paid in full.

5. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The total cash cost of the Lornex Project is estimated at $138,000,000. Development and construction commitments outstanding at December 31, 1971 totalled approximately $8,319,000. Of the total financing $111,700,000 has been received, an additional $24,000,000 is to be provided under the Bank Loan Agreement and it is anticipated that mortgages on employee facilities will provide an additional $2,300,000.

Under the Construction and Management Agreement between the Company and Rio Algom Mines Limited, Rio Algom agreed to assume responsibility for the construction of the Lornex Project, to supervise and manage the business of the Company both during construction and thereafter for a period of at least 15 years from December 1, 1969, and to incur on behalf of the Company and to pay all construction period costs and operating period costs incurred during the first four years following commencement of commercial production. The Company has agreed to use the proceeds of financing and revenues from concentrate sales in the first instance to pay principal and interest on its loans and thereafter to reimburse Rio Algom for construction period costs and operating period costs incurred by Rio Algom on its behalf. In addition the Company has agreed to pay Rio Algom a management fee of $250,000 per annum.

If the Company is unable to reimburse Rio Algom in cash for any of the aforementioned costs Rio Algom may elect to receive additional Units of

Income Debentures and Class A shares in lieu of reimbursement at a later date. Rio Algom's obligation to incur further expenses is suspended if unreimbursed construction period costs exceed $20,000,000 or if unreimbursed costs in total exceed $30,000,000. Rio Algom has already accepted 16,141 such Units comprising $16,141,000 principal amount of Income Debentures and 1,291,280 Class A shares. The aforementioned limits on Rio Algom's liability have thus been reduced to $3,859,000 and $13,859,000 respectively.

(b) The Company has a contingent liability to buy back 83 houses at the Logan Lake townsite for $1,928,275 until December 31, 1982.

(c) Under the terms of an agreement dated May 17, 1965 the Company must pay Skeena Silver Mines Ltd. 5% of the net smelter returns from any ore produced from certain mining claims with a limit of $500,000 on the total amount payable.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1971 the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was $176,389.

Rio Algom

Rio Tinto

Printed in Canada

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LORNEX MINING CORPORATION LTD.

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

For the six months ended June 30, 1971
($000's omitted)

	1971	*1970*
Source of funds:		
Units of 8¾ % Notes and shares	$ 16,636	$ –
Units of 8½ % Series A Income Debentures and shares	1,519	–
Housing advances	937	–
Loans from associated companies	–	4,000
Proceeds from disposal of equipment	–	12
	19,092	4,012
Disposition of funds:		
Plant and equipment	4,165	1,026
Construction in progress	22,308	1,243
Mining properties and preproduction expenditures	5,181	1,932
	31,654	4,201
Less charges not involving current outlay of funds:		
Value ascribed to share capital	215	–
Accrued interest on income debentures and interim advances	1,050	198
	1,265	193
	30,389	4,003
Increase or (decrease) in working capital	**$(11,297)**	**$ 9**
Working capital or (deficiency) at June 30	**$ (1,310)**	**$ 204**

Lornex Mining Corporation Ltd.

Interim Report to the Shareholders

for the six months ended June 30, 1971

TO THE SHAREHOLDERS:

Expenditures on the project during the first six months of 1971 were $31,654,000 including accrued interest and financing expenses. Development and construction commitments at June 30, 1971 were $13,657,000. As at the end of June some $75 million had been spent and committed on the project to date.

Despite unusually severe winter weather and spring break-up conditions the project has proceeded substantially on schedule in relation to the planned operation date in the second quarter of 1972.

Approximately 40% of the currently estimated 47 million tons of preproduction material has been removed. All of the four 15-cubic yard shovels and twenty-two 120-ton trucks, which will be used for this purpose and subsequently for the operation of the open pit, are now in service.

Work on the concentrator, crusher and auxiliary facilities is proceeding as planned. The major portion of concrete work has been completed, steel erection is well under way and some sections of heavy equipment have been set into place.

The water intake at the Thompson River has been substantially completed and clearing of the pipeline route to the mine is in its final phase. Work is proceeding on the intermediate tailings starter dam. Relocation of the highway which runs through the tailings basin is on schedule.

The development of the Logan Lake townsite is proceeding on schedule. The first group of one hundred houses is nearing completion with occupancy expected to begin in August. Eighty-five of these homes have been reserved by Lornex employees for purchase. Work is under way on the second phase of the program comprising fifty-eight dwelling units. In addition satisfactory progress is being made on the commercial and civic centre and on the elementary school which is planned to be available for the start of the fall term.

Reclamation test plots have been laid out preparatory to the initiation of trial programs to determine the type of grass, fertilizer and other requirements necessary for restoration of the overburden dumps during the mine life.

As previously reported, the project capital cost is expected to be $138 million as compared with the $123.6 million originally estimated when the decision was made in 1969 to proceed with the project. On June 25, 1971, the first issue of Units of 8½% Series A Income Debentures and Class A shares was made to Rio Algom Mines Limited in accordance with Rio Algom's obligation (pursuant to the Construction and Management Agreement) to provide supplementary financing. Units comprising $1,519,000 in principal amount of Debentures and 121,520 Class A shares were issued, of which 66,880 Class A shares were converted to common shares. Under a previous agreement with The Yukon Consolidated Gold Corporation Limited, Yukon purchased at cost from Rio Algom Units comprising $418,000 in principal amount of Debentures and 33,440 Class A shares. On June 25, 1971, after the first issue under the supplementary financing arrangements, there were 6,495,224 common shares and 185,618 Class A shares outstanding.

R. D. ARMSTRONG
President.

July 29, 1971

Subject to year-end audit and adjustments.